

UIL
501.07-05
INTERNAL REVENUE SERVICE
DISTRICT DIRECTOR

Copy

DEPARTMENT OF THE TREASURY

Date:

NOV 1 1956

In Reply Refer to:

Person to Contact:

Contact Telephone Number:

Dear Sir or Madam:

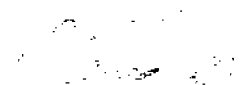
On [redacted] you signed a statement which indicated that you were in agreement with revocation of your exempt status under section 501(c)(7) of the Internal Revenue Code (IRC).

Therefore, effective [redacted] your exempt status under IRC section 501(c)(7) is revoked. You are now required to file Federal income tax returns on Form 1120.

This is a determination letter.

If you have any further questions, please contact the person whose name and telephone number are shown above.

Sincerely,


Glenn E. Henderson
District Director

Enclosures:

Examination report

Form 6018, Consent to Proposed Adverse Action

Copy

INTERNAL REVENUE SERVICE
District Director

Department of the Treasury

Person to Contact:
Telephone Number:
Refer Reply to:
EP/EO:
Date:

NOV 12 1990

Dear

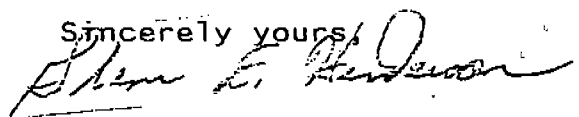
We have completed our examination of your Forms 990EZ for the periods ended and It has been determined that your exempt status should be revoked.

The enclosed report of examination states the basis for the revocation. You have concurred with our determination and have signed an agreement to that effect. Accordingly, your exemption from Federal income tax under section 501(c)(7) of the Internal Revenue Code has been revoked effective

As a taxable entity, you will be required to file the appropriate federal income tax return for subsequent years.

Thank you for your cooperation.

Sincerely yours



District Director

Enclosures

Form 886-A	EXPLANATION OF ITEMS	Schedule No. or Exhibit
Name of Taxpayer		Year/Period Ended

FACTS:

The club was incorporated on _____ to: 1) promote the breeding of pure-bred dogs; 2) create an appreciation on the part of the public for the value of pedigreed dogs; and 3) conduct sanctioned and licensed dog shows, field trials, and obedience trials, and encourage & support such shows.

Membership is open to all persons 18 years & older who are in good standing with the _____. There are 5 types of members: 1) Individual; 2) Family; 3) Life (non-paying); 4) Honorary (non-paying/non-voting); and 5) Junior - between the ages of 10 and 18.

During the years examined, the organization had approximately 45 individual members paying annual dues of \$30 per year, 18 family members paying dues of \$35 per year and 4 junior members paying annual dues of \$15 per year. Income received from membership dues constitutes only 2% of the organization's total income.

Article III, Section 1 of the Clubs's Bylaws states "While membership is to be unrestricted as to residence, the Club's primary purpose is to be representative of the breeders and exhibitors in its area.

In a letter dated _____ the club was granted exempt status under section 501(c)(7) of the Internal Revenue Code.

Dog Shows are held in May of each year. Income from these shows came from _____ and constituted more than 42% of the organization's total income.

Training classes are held at various times throughout the year. Non-members are charged \$15 for the Super Puppy and Petiquette classes, \$20 for the Beginning Obedience classes and \$25 for the Conformation classes. Members do not pay any fees related to classes.

More than 30% of the organization's total income came from an annual Craft Show and virtually all of this income was received from non-members.

In addition, the club received \$2,707 and \$3,590 in investment income during the years examined.

According to the information submitted, 90% of the club's total gross receipts came from non-members.

Form 886-A	EXPLANATION OF ITEMS	Schedule No. or Exhibit
Name of Taxpayer		Year/Period Ended

LAW:

Section 501(c)(7) of the Internal Revenue Code provides exemption to "Clubs organized for pleasure, recreation, and other nonprofitable purposes, substantially all of the activities of which are for such purposes and no part of the net earnings of which inures to the benefit of any private shareholder."

Section 1.501(c)(7)-1(b) of the Income Tax Regulations relating to the exemption of social clubs, reads, in part, as follows:

"(b) A club which engages in business such as making its social and recreational facilities available to the general public ... is not organized an operated for pleasure, recreation, and other nonprofitable purposes, and is not exempt under section 501(a). Solicitation by advertisement or otherwise for public patronage of its facilities is prima facie evidence that the club in engaging in business and is not being operated exclusively for pleasure, recreation, or social purposes...."

Revenue Procedure 71-17, published in Cumulative Bulletin 1971-1 C.B. 683 sets forth guidelines for determining the effect of gross receipts derived from nonmember use of a social club's facilities on the club's exemption under section 501(c)(7), and states, in part, as follows:

"Where a club makes its facilities available to the general public to a substantial degree, the club is not operated exclusively for pleasure, recreation, or other nonprofitable purposes. See Rev. Rul. 60-324, C.B. 1960-2,173; and Rev. Rul. 69-219, C.B. 1969-1, 153."

Section 3.01 of Revenue Procedure 71-17, describes the minimum gross receipts standard, and states, in part, as follows:

"A significant factor reflecting the existence of a nonexempt purpose is the amount of gross receipts derived from use of a club's facilities by the general public. As an audit standard, this factor alone will not be relied upon by the Service if annual gross receipts from the general public for such use is \$2,500 or less or, if more than \$2,500, where gross receipts from the general public for such use is five percent or less of total gross receipts of the organization..."

Prior to the enactment of Public Law 94-568, an organization was required to be organized and operated exclusively for pleasure, recreation and other nonprofitable purposes.

Form 886-A	EXPLANATION OF ITEMS	Schedule No. or Exhibit
Name of Taxpayer		Year/Period Ended

LAW: (cont'd)

The Committee Reports show that the wording change was intended to make it clear that social clubs may receive up to 35 percent of their gross receipts, including investment income, from sources outside their membership without losing their exempt status. Within this 35 percent limitation, no more than 15 percent of gross receipts may be derived from non-member use of the club's facilities and/or services.

In addition, the statute prohibits exemption under section 501(c)(7) if any part of the organization's net earnings inures to the benefit of any private shareholder.

Traditionally, inurement has been found to be present where a club derives income from non-member sources and uses it to reduce the cost of providing services to members. Revenue Ruling 58-589, 1958-2 C.B. 266, states, in part, as follows:

" Net earnings may inure to members in such forms as an increase in services offered by the club without a corresponding increase in dues or other fees paid for club support or as an increase in the club's assets which would be distributable to members upon the dissolution of the club."

Revenue Ruling 79-145, published in Cumulative Bulletin 1979-1 on page 360, states that "amounts paid to a social club by visiting members of another social club are amounts paid by nonmembers, even though both clubs are of like nature and the amounts paid are for goods, facilities, or services provided by such social club under a <reciprocal> arrangement with such other social club."

Revenue Ruling 71-421, published in Cumulative Bulletin 1971-2 on page 229, holds that a dog club "formed to promote the ownership and training of purebred dogs and conducting obedience training classes, may not be reclassified as an educational organization exempt under section 501(c)(3)."

Revenue Ruling 73-520, published in Cumulative Bulletin 1973-2 on page 180, provides that a club that promotes and protects a particular breed of dog not raised or used by members as farm animals is not exempt as an agricultural organization under section 501(c)(5) of the Code.

CONCLUSIONS:

Based upon the information submitted, your club receives a substantial part of your income from the use of your facilities and services by the general public.

Therefore, we have determined that your exempt status under section 501(c)(7) of the Internal Revenue Code should be revoked.